



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **18 VAC 5-21 – Exam Deadline Extension of Prior Exam Requirements for Qualified Candidates**

**Board of Accountancy**

October 4, 2007

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### **Summary of the Proposed Amendments to Regulation**

The Board of Accountancy (Board) proposes to require that any candidate for a certified public accountant (CPA) license who qualified to sit for the CPA exam under the education requirements prior to July 1, 2006, pass all sections of the CPA exam by December 31, 2008. If the candidate does not pass all sections of the CPA exam by December 31, 2008, s/he will lose all CPA exam credits and must qualify to sit for the exam using the requirements on or after July 1, 2006.

### **Result of Analysis**

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of benefits and costs can be found in the next section.

### **Estimated Economic Impact**

Beginning July 1, 2006, the education requirements to sit for the CPA exam increased from at least 120 semester hours of education (including at least 24 semester hours of accounting and at least 18 semester hours in other business courses) to at least 150 semester hours of education (including at least 30 semester hours of accounting and at least 24 semester hours in other business courses). Under current regulation, any candidate who applied to sit for the CPA exam administered prior to July 1, 2006 needs to fulfill only the education required for qualification for the exam prior to July 1, 2006. In addition, under current regulation, candidates must pass all four sections of the CPA exam within the 18-month period that begins on the date that they pass at least one section. If they do not pass the exam within this 18-month period, the exam credit earned will expire. For candidates who fulfilled the requirements to take the exam

under the 120-hour education requirement, this means that they would have to re-apply to take the exam after July 1, 2006, and therefore they would have to fulfill the 150-hour education requirement.

Under the proposed amendment, candidates who meet the education requirements of the Board for taking the CPA exam prior to July 1, 2006 (the 120-hour requirement) and who *sit for* at least one part of the CPA exam prior to July 1, 2006, shall pass all parts of the CPA exam by December 31, 2008. The candidates who fail to pass all parts of the exam by December 31, 2008 will lose all CPA exam credits and must meet the requirements of the Board to sit for a CPA exam effective on or after July 1, 2006 (the 150-hour requirement).

Legislation to change the education requirement from 120 semester hours to 150 semester hours was passed in 1999 (Chapter 950, Acts of Assembly 1999). In order to allow CPA candidates and educational institutions time to prepare for the change, the requirement was not instituted until July 1, 2006. The Board then publicized to CPA candidates that candidates would have to re-qualify under the new 150 semester-hour requirement if they had not passed the exam by July 1, 2007. Because the Board found that it would be impossible to finish the required regulatory process in time to institute the July 1, 2007 deadline, the deadline was changed to December 31, 2008. The Board feels that this deadline is necessary in order for it to continue to fulfill the statutory mandate to protect the citizens of the Commonwealth by regulating individual CPAs and CPA firms that provide public accountancy services in Virginia. The American Institute of Certified Public Accountants (AICPA), the National State Boards of Accountancy, and other industry experts have determined that significant increases in the requirements to effectively perform accounting and auditing tasks, and the creation of new tax laws, have expanded the required knowledge base that professional practice in accounting requires. The Board feels that the additional hours of education will significantly enhance the knowledge, skills, and abilities of those individuals seeking to practice public accounting; therefore, it is important to ensure at some point that all CPAs have the necessary hours of education. The benefit of determining the deadline is to ensure that all CPAs have the required knowledge and expertise to practice accounting, which will positively impact the welfare of the public who use these services. In addition, imposing a deadline will ensure consistency across all CPA candidates and might reduce some record-keeping or paperwork for the state.

On July 1, 2006, 1763 candidates for the Uniform CPA exam were permitted by statute to continue under the 120 semester hour requirement. Since that time, 825 have successfully completed the exam and 938 candidates remain in the exam process. Of those 938 candidates, 670 had not passed any section of the exam prior to July 1, 2007. Because under current regulation, candidates have 18 months from the time they pass a section of the exam to pass the entire exam, these 670 candidates are the only candidates for whom the constraint imposed by the amendment is binding. Under current regulation, these candidates have 18 months from when they pass at least one section of the exam to pass all sections of the exam before they would be subject to the 150-hour education requirement. Under the proposed regulation, these candidates must pass all sections of the exam by December 31, 2008, regardless of when they pass their first section of the exam. We do not know for how long those 670 candidates have been trying to pass the exam. At least one candidate has been trying to pass the exam for ten years.<sup>1</sup>

The Board does not anticipate any additional cost to the Commonwealth to implement or enforce the proposed amendment. In addition, the Board does not anticipate a significant slowdown of new licensed CPAs entering the labor market as a result of the proposed deadline. (Since the proposed deadline only affects 38 percent of the original 1763 candidates, and there are currently 21,310 licensed CPAs in Virginia<sup>2</sup>, this seems to be reasonable.) Therefore, the major cost of this amendment will be imposed solely upon the 670 candidates who will have less time to pass the exam. Cost will be imposed only if having to pass the exam in a shorter period of time itself imposes a cost, or if candidates are unable to pass the exam *because* their allowed time period was shortened. These costs are very difficult to quantify. For example, it is reasonable to think that a candidate who might have decided to work while studying for the exam will make the decision not to work in order to spend more time studying to pass the exam in a shorter time period. However, if the candidate passes the exam in a shorter time period, she might be able to make up those lost earnings by being able to work full-time as a licensed CPA earlier than she would have been able to without the proposed amendment.

Estimating the number of candidates who are not likely to pass the exam in a shorter time period is also difficult. Nationally, about 50 percent of all candidates who passed all four

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<sup>1</sup> Source: Board of Accountancy

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sections of the exam passed them after testing four times (i.e., one attempt per section).<sup>3</sup> Approximately 31 percent required five or six testing sessions, and the remaining 19 percent required between seven and nineteen testing sessions.<sup>4</sup> Because these 670 candidates have not passed any sections since July 1, 2006, however, they are likely to either fit into the 19 percent who take between seven and nineteen sessions to pass the exam, or not pass the exam at all.

In the worst case, none of the 670 candidates will pass all four sections of the exam by December 31, 2008. In other words, all 670 candidates will either have to gain 30 more semester-hours of education (including six semester hours of accounting and six semester hours of other business courses) or will have to pursue a different career. The latter will impose a cost on the candidate who will not be able to pursue the career that s/he intended to pursue; however, it could also provide a monetary benefit to the individual (and the Commonwealth) since the person is likely to engage in full-time economic activity sooner. This argument is particularly compelling for those candidates who have been trying to pass the CPA exam for many years.

For those candidates who do choose to pursue the additional hours of education, the Board estimates that one semester-hour costs between about \$800 (at a four-year college) and \$250 (at a community college). Even if we could estimate the number who will choose to pursue the additional hours, the total cost is difficult to quantify, since, according to the Board, most candidates who qualified to sit for the CPA exam, even under the 120 education-hour requirement, completed 140+ semester hours. These candidates, then, would not need 30 additional semester hours, but ten or fewer semester hours. If, however, all 670 candidates decided to gain all 30 hours of additional semester hours at a four-year college, the total cost would be \$16,080,000.<sup>5</sup> If all 670 candidates needed 10 additional semester-hours and got those hours at a community college, the total cost would be \$1,675,000.<sup>6</sup> Either of these numbers represents a reasonable “outside” estimate of total cost of the amendment. However, it is important to note that 47 percent of the original 1763 candidates who qualified under the 120-hour requirement passed the exam since July 1, 2006 and an additional 15 percent have since

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<sup>3</sup> There are four sections to the CPA exam that are offered in four two-month testing windows during the year. Candidates may take all four sections in one testing window, or take any one, two, or three sections in one window and the rest in subsequent windows. The only rule is that a candidate cannot retake a failed section in the same testing window; he must wait until the next window to retake a failed section.

<sup>4</sup> Source: Board of Accountancy, Uniform CPA Exam, <http://www.cpa-exam.org/cpa/bibliography.html>

<sup>5</sup>  $670 * 30 * 800$

<sup>6</sup>  $670 * 10 * 250$

passed at least one section of the exam. Since the remaining candidates have been attempting to pass the exam since July 1, 2006, it is reasonable to think that many of them will either pass the exam by December 31, 2008 or choose a different career path, making it unnecessary for them to pursue the additional education.

In sum, although there is insufficient data to accurately compare the magnitude of the costs versus the benefits, it seems likely that the benefit to the public outweighs the cost to the 670 affected candidates.

### **Businesses and Entities Affected**

On July 1, 2006, 1763 candidates for the Uniform CPA exam were permitted by statute to continue under the 120 semester hour requirement. Since that time, 825 have successfully completed the exam and 938 candidates remain in the exam process. Of those 938 candidates, 670 had not passed any section of the exam prior to July 1, 2007. The proposed amendment will directly affect the 670 candidates who had not passed any section of the exam prior to July 1, 2007, and their prospective employers. The proposed amendment will also affect the Virginia citizen who uses CPA services.

### **Localities Particularly Affected**

The proposal does not disproportionately affect specific localities.

### **Projected Impact on Employment**

This amendment could affect the part-time employment of the 670 candidates while they are attempting to pass the exam in the shorter time period, and their full-time employment as CPAs should they not be able to pass the exam in the shorter time period. The amendment should not impact employment in Virginia beyond that of those 670 CPA candidates.

### **Effects on the Use and Value of Private Property**

The proposed amendment is not anticipated to have any negative effect on the use and value of private property.

### **Small Businesses: Costs and Other Effects**

According to the Virginia Society of CPAs, there are 1500 small CPA firms in Virginia.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

There is no apparent alternative method that minimizes adverse impact while still accomplishing the intended positive policy goals.

## **Real Estate Development Costs**

The proposed amendment does not create additional costs related to the development of real estate for commercial or residential purposes.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.04 of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.04 requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.04 requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.